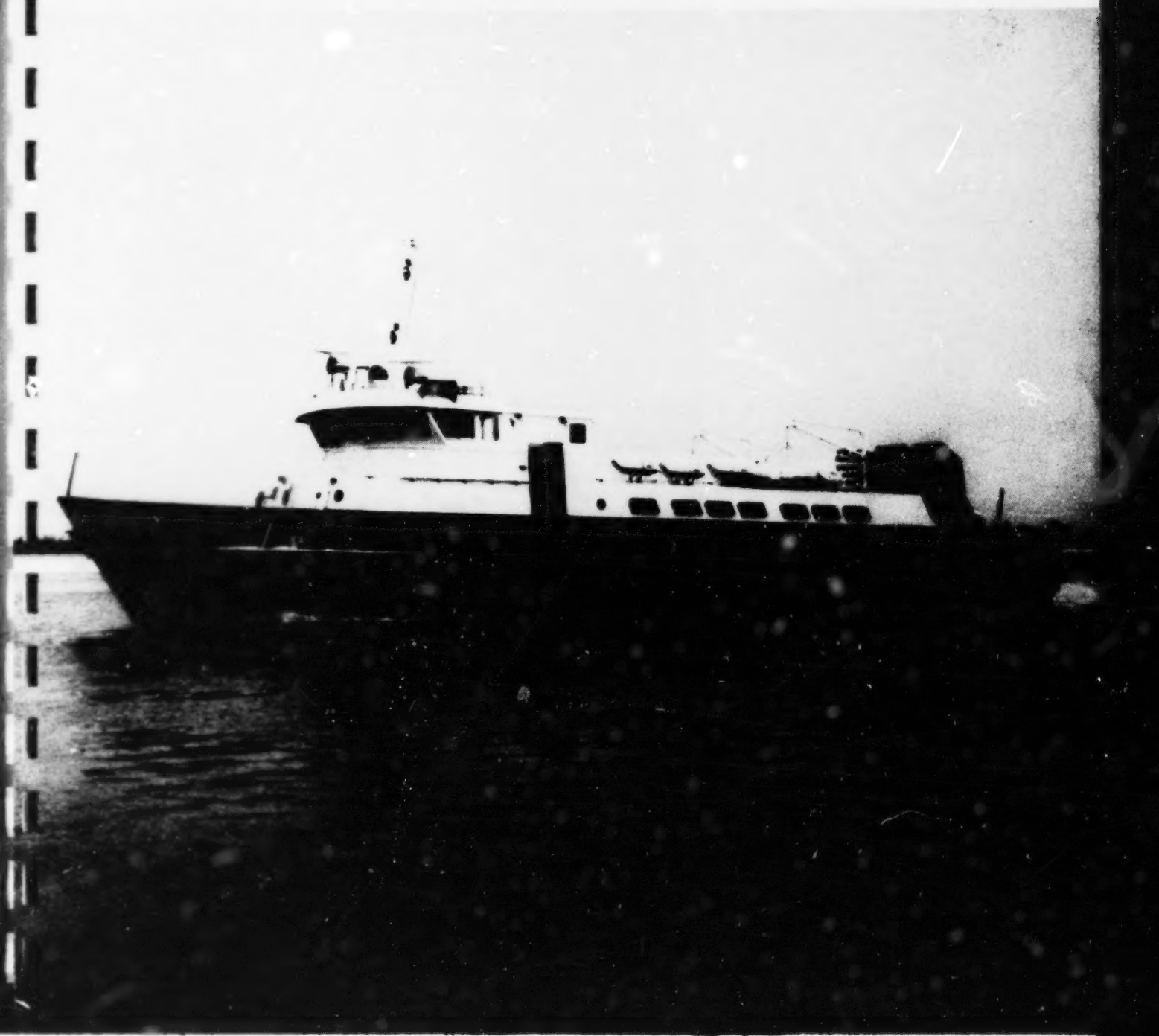
ANNUAL REPORT

MARCH 31, 1983

GEORGETOWN SHIPYARD INC.



FRONT COVER: 125 ft aluminum passenger ferry "M/V Marine Courier" under construction at Georgetown Shipyard Inc. for CN Marine Inc.

ANNUAL REPORT

GEORGETOWN SHIPYARD INC.

March 31, 1983

Established by an Act of the Provincial Legislature (23 Eliz. II (2) Cap. 71)

Executive Council under authority of Section 12 did order and issue a Proclamation proclaiming the said "Act to Incorporate Georgetown Shipyard Inc." to come into force effective 5 December 1974.

GEORGETOWN SHIPYARD INC.
P.O. Box 220
Georgetown
Prince Edward Island
C0A 1L0

DIRECTORS OF GEORGETOWN SHIPYARD INC.

AS AT MARCH 31, 1983

J. David Stewart, Chairman

Keith T.N. Lapp, Vice Chairman

Phillip Wood

Carter Van Iderstine

Ivan Kerry

Johnnie Williams

The Honourable Pat Binns
Minister Responsible for Georgetown Shipyard Inc.
P.O. Box 2000
Charlottetown, P.E.I. C1A 7N8

Sir:

In accordance with the provisions of the "Act To Incorporate Georgetown Shipyard Inc.", we have the honour to submit the Annual Report of Georgetown Shipyard Inc. for the fiscal year ending March 31, 1983.

As outlined in the Audited Financial Statements the Company had a net loss of $171,093 on sales revenue of $3,567,444. The major contracts undertaken in the year were profitable but under-utilization of facilities placed the shipyard into a loss position.

The market for new ship construction remained depressed during the fiscal year. The order books for all shipyards in Canada were at a very low level and the outlook in the near future is not very bright. The federal government recognized the problem and the Special Recovery Capital Project Program introduced in their 1983 Budget included a procurement program for upgrading Canada's fleet of vessels. Georgetown Shipyard should have an opportunity to tender on vessels in our size range under this program. The fishing industry remained in a depressed state and there was very little activity in the commercial shipbuilding market.

The Company was pleased to be awarded the contract in the amount of $4,027,173 for the construction and delivery of a 125 ft aluminum passenger vessel for CN Marine. Our tender price was the lowest submitted from several shipyards in Eastern Canada. A letter of intent was signed on July 30, 1982 and the contract was formally signed on October 4, 1982.

The general ship repair market was soft in the fiscal year. The economic slow down and the depressed fishing industry have caused vessels to be tied up and a minimum of maintenance performed on those still operating. The Company was, therefore, delighted to have been awarded the contract in competitive tendering in October 1982 for the major conversion and refit of the Department of Fisheries and Oceans vessel "Cape Harrison". The contract covered the conversion of the vessel from a patrol to an oceanographic research vessel, including re-engining, new laboratories, additional deck house and accommodations, etc.

The shipbuilding production activity in the fiscal year was:

1. The outfit, completion and delivery in June 1982 of an 83 ft passenger ferry (Hull 43) for the province of Nova Scotia.
2. The commencement in November 1982 of a 125 ft high speed aluminum passenger ferry (Hull 44) for CN Marine to a 12% completion at fiscal year end.

The number of vessels docked on the 600 ton marine railway was down in 1982 as more of the obsolete side trawlers are withdrawn from service. The contract for the conversion of the "Cape Harrison" came at an opportune time to provide ship repair work over the winter months in what is a normally slow period. Two other significant ship repair contracts were won in competitive tendering to boost a slow season; repair fire damage to the fishing vessel "Ann Spencer", and the along-side refit of the Coast Guard vessel "Walter E. Foster".

The major components of the "Energy from Waste" plant for the P.E.I. Energy Corporation were completed and delivered in the first half of the fiscal year. The completed plant came on line early in 1983 and all reports are that the equipment fabricated by the shipyard is working well.

The Management-Union relations at the shipyard remained good. The Company was operating under a two year agreement that expires on February 29, 1984.

A Task Force consisting of representatives from the federal and provincial government, and Georgetown Shipyard was established on May 28, 1982 "to examine the feasibility of expanding dry dock capacity at Georgetown Shipyard". The final report of the Task Force was submitted to the federal and provincial governments on April 28, 1983. The report recommended "that a 2000 ton syncrolift, with supporting equipment, be purchased and installed by Georgetown Shipyard Inc." The report stated that the improvements were necessary if Georgetown Shipyard was to become a viable and profitable enterprise; otherwise, if no action is taken, the Company would face diminishing markets, reduced levels of employment and increasing losses.

The Board of Directors strongly supports the recommendations of the Task Force and respectfully requests that the federal and provincial government attempt to resolve the funding of the proposal at an early date.

The financial statements for the fiscal year ending March 31, 1983 showed net sales of $3,567,444 and a net loss of $171,093. The shipbuilding, ship repair and industrial product lines all contributed a gross profit to operations. An eight month gap in shipbuilding production from the delivery of the Nova Scotian ferry (hull 43) to the commencement of the CN Marine ferry (Hull 44) resulted in an under-utilization of facilities and an underabsorption of expenses. The Company contributed to the economy of P.E.I. a total of $1,655,338 in salaries and wages and an estimated $675,000 in purchases of supplies, materials and services from P.E.I. sources in the fiscal year ending March 31, 1983.

The Board of Directors is generally pleased with the overall results of the operation over the past few years based on the unfavourable market conditions in the industry and the limited facilities available. We believe there is a long term shipbuilding and ship repair market and the Company has proven it can compete with other shipyards for the business. The upgraded facilities, however, are required if the shipyard is to take advantage of the market opportunities; otherwise, the Company will remain as a marginal operation.

I would like to extend my thanks to the Board members, management, staff and tradesmen at Georgetown Shipyard for their support and efforts in the operation of the shipyard.

Respectfully submitted,

J. David Stewart
Chairman

GEORGETOWN SHIPYARD INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

MARCH 31, 1983

May 13, 1983

AUDITORS' REPORT TO THE BOARD OF DIRECTORS

We have examined the statement of financial position of Georgetown Shipyard Inc. as at March 31, 1983 and the statements of surplus (deficit), earnings, changes in financial position and related schedules for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the financial statements and the notes appended thereto present fairly the financial position of the corporation as at March 31, 1983 and the results of its operations and changes in its financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Coopers & Lybrand
Chartered Accountants

GEORGETOWN SHIPYARD INC.

STATEMENT OF FINANCIAL POSITION AS AT MARCH 31, 1983

ASSETS

	1983 $	1982 $
CURRENT ASSETS		
Accounts receivable less allowance for doubtful accounts — 1983 - $1,200; 1982 - $1,200 (note 4)	877,736	196,286
Inventory of materials	491,055	330,337
Incomplete contracts - (note 2)	—	362,884
Warranty deposit	50,000	—
Prepaid expenses and sundry assets	99,975	91,593
	1,518,766	981,100
OTHER ASSETS	50,022	112,474
FIXED ASSETS (note 3)	669,062	654,439
	2,237,850	1,748,013

LIABILITIES

CURRENT LIABILITIES			
Bank advances (note 4)		700,376	392,807
Accounts payable and accrued liabilities		695,035	690,673
Current portion of conditional sales contract		30,403	—
Incomplete contracts - (note 2)			
Progress billings	1,688,467		
Costs	1,386,837	301,630	—
		1,727,444	1,083,480
A.D.B. LOAN - WATER SUPPLY SYSTEM		47,071	50,013
NON-INTEREST BEARING ADVANCE FROM THE PROVINCE OF PRINCE EDWARD ISLAND		578,246	578,246
CONDITIONAL SALES CONTRACT (Less: Current portion)		22,802	—
APPRAISAL INCREASE CREDIT (note 3b)		29,952	32,846
		2,405,515	1,744,585
SURPLUS (DEFICIT) - DUE TO (DUE FROM) THE PROVINCE OF PRINCE EDWARD ISLAND		(167,665)	3,428
		2,237,850	1,748,013

GEORGETOWN SHIPYARD INC.

STATEMENT OF SURPLUS (DEFICIT)

DUE TO (DUE FROM) THE PROVINCE OF PRINCE EDWARD ISLAND

FOR THE YEAR ENDED MARCH 31, 1983

	1983 $	1982 $
BALANCE — BEGINNING OF YEAR	3,428	(220,641)
Advances from The Province of Prince Edward Island as payment towards the accumulated losses of the Shipyard	—	220,641
	3,428	—
Net earnings (loss) for the year	(171,093)	3,428
BALANCE — END OF YEAR	(167,665)	3,428

GEORGETOWN SHIPYARD INC.

STATEMENT OF EARNINGS

FOR THE YEAR ENDED MARCH 31, 1983

	Hull Contracts	Repair Contracts	Industrial Contracts	Total 1983	Total 1982
	$	$	$	$	$
BILLINGS					
Made during the year	1,811,035	1,638,620	781,811	4,231,466	3,574,526
Decrease (increase) in billings made on incomplete contracts					
Opening balances	687,550	—	336,895	1,024,445	13,283
Closing balances	1,118,485	547,492	22,490	1,688,467	1,024,445
	(430,935)	(547,492)	314,405	(664,022)	(1,011,162)
Net sales — completed contracts	1,380,100	1,091,128	1,096,216	3,567,444	2,563,364
COSTS					
Incurred during the year	1,065,253	1,597,386	542,094	3,204,733	3,291,276
Decrease (increase) in costs incurred on incomplete contracts					
Opening balances	980,930	89,717	316,682	1,387,329	142,770
Closing balances	741,704	621,723	23,410	1,386,837	1,387,329
	239,226	(532,006)	293,272	492	(1,244,559)
Net costs — completed contracts	1,304,479	1,065,380	835,366	3,205,225	2,046,717
GROSS PROFIT — COMPLETED CONTRACTS	75,621	25,748	260,850	362,219	516,647
OTHER INCOME				4,781	7,202
				367,000	523,849
EXPENSES (schedule)				1,454,012	1,370,526
Less: Applied to cost of sales and work in process				915,919	850,105
UNABSORBED EXPENSES				538,093	520,421
NET EARNINGS (LOSS) FOR THE YEAR				(171,093)	3,428

GEORGETOWN SHIPYARD INC.

STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED MARCH 31, 1983

	1983	1982
	$	$
SOURCE OF WORKING CAPITAL		
Payment received from The Province of Prince Edward Island	—	220,641
Increase in long-term debt	53,205	—
Decrease in other assets	62,452	—
	115,657	220,641
USE OF WORKING CAPITAL		
Used in operations —		
Net loss (earnings) for the year	171,093	(3,428)
Item not affecting working capital		
Depreciation	111,888	92,470
	59,205	(95,898)
Purchase of fixed assets	129,405	31,864
Reduction of A.D.B. loan — water supply	2,942	2,942
Increase in current portion of long-term debt	30,403	—
Increase in others assets	—	47,058
	221,955	(14,034)
INCREASE (DECREASE) IN WORKING CAPITAL	(106,298)	234,675
WORKING CAPITAL DEFICIENCY — BEGINNING OF YEAR	102,380	337,055
WORKING CAPITAL DEFICIENCY — END OF YEAR	208,678	102,380

GEORGETOWN SHIPYARD INC.

SCHEDULE OF EXPENSES

FOR THE YEAR ENDED MARCH 31, 1983

	1983 $	1982 $
Salaries, wages and benefits	771,569	694,222
Utilities	119,151	112,540
Security	56,528	39,811
Office and postage	16,404	16,370
Repairs and maintenance	93,433	116,239
Advertising and promotion	20,889	15,109
Supplies and small tools	74,339	65,198
Travel	25,923	21,785
Insurance	36,312	37,434
Taxes	20,501	4,193
Rentals	23,602	21,401
Director fees and expenses	18,926	18,314
Professional fees	22,485	3,622
Bad debts	—	(3,371)
Interest and bank charges	39,859	107,519
Truck expense	10,574	6,512
Inventory adjustment account	(19,317)	(964)
Miscellaneous	10,946	2,122
Depreciation	111,888	92,470
	1,454,012	1,370,526

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1983

1. ACCOUNTING POLICIES

Long-term shipbuilding contracts —
The Shipyard follows the completed contract method of accounting for revenues and expenses relating to contracts. Under this method progress billings on incomplete contracts less costs are included as a current liability. Income is recorded when a contract has been completed, however, any anticipated or known losses are recorded by way of a provision at the time they are known.

Inventories —

Inventories are valued at the lower of cost and market. Cost is defined as average cost. Market is defined as replacement cost.

Depreciation —

Depreciation of fixed assets is calculated using the straight line method at the annual rates of 4% for land improvements, 4% for steel and block frame building, 6 2/3% for wood frame buildings, 12.5% for the launchway, 20% for the machinery and equipment and 10% for the tug.

2. INCOMPLETE CONTRACTS

	Hull 44	Repair Contracts	Industrial Contracts	Total 1983	Total 1982
	$	$	$	$	$
Progress billings — Net of federal sales tax	1,118,485	547,492	22,490	1,688,467	1,024,445
Costs —					
Material	622,476	237,176	4,739	864,391	723,155
Labor	60,263	192,218	8,448	260,929	320,765
Overhead ...	58,965	192,329	10,223	261,517	343,409
	741,704	621,723	23,410	1,386,837	1,387,329
PROGRESS BILLINGS IN EXCESS OF (LESS THAN) COSTS	376,781	(74,231)	(920)	301,630	(362,884)

GEORGETOWN SHIPYARD INC.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 1983

3. FIXED ASSETS

(a) These are classified as follows:

	1983			1982
	Recorded Value	Accumulated depreciation	Net	Net
	$	$	$	$
Land and improvements ...	139,804	21,800	118,004	120,859
Buildings	607,970	230,569	377,401	404,524
Launchway	115,048	102,465	12,583	26,430
Machinery and equipment .	699,615	548,039	151,576	90,412
Tug	27,163	17,665	9,498	12,214
	1,589,600	920,538	669,062	654,439

(b) The land and land improvements, buildings and launchway are recorded at appraised values established Janaury 24, 1974 plus subsequent additions at cost less disposals at the recorded value, excepting the new stores building which is recorded at its actual cost.

The excess appraised value over the original recorded value is $48,240 and the resulting credit is shown as an appraisal increase credit less amortization of $18,288 accumulated to date.

4. SECURITY FOR BANK ADVANCES

Bank advances are secured by guarantees, expiring March 31, 1984 from the Province of Prince Edward Island to the extent of $1,500,000 and a general assignment of accounts receivable.